Notes

Introduction to Savings & Investing

Module Description

A fifty-minute interactive course designed to motivate the junior sailor to begin saving and investing. The program includes introductions to goal-setting, the financial planning pyramid, basic budgeting concepts, savings vehicles, U.S. Savings Bonds and mutual funds. Instructors should be familiar with the full Saving and Investing program in order to be prepared to answer questions that may arise during this introductory program.

Materials

The Financial Planning Pyramid

How Your Money Flows Worksheet

Calculators (optional)

Note

All future value calculations are for example only, and were calculated assuming the investment was made at the beginning of the period.

Notes

Instructor References

Relevant Websites:
www.lifelines4qol.org

SECNAVINST 1754.1, Family Service Center Program

OPNAV Instruction 1740.5A (Draft), Personal Financial Management Education, Training and Counseling Program

Command Financial Specialist Training Manual, NAVPERS 1560.8C (or later)

The ABC's of Managing Your Money, by Jonathan D. Pond, CPA

Everybody's Money Book, by Jordan E. Goodman

Making the Most of Your Money, by Jane Bryant Quinn

The Truth About Money, by Ric Edelman

The Wealthy Barber, by David Chilton

Introduction

Introduce self, relevant education and work experience.

Welcome

Welcome to Introduction to Saving and Investing, a course designed to help you understand the very basics of saving and investing so you can get started today on the journey to achieving your financial goals.

Motivational Discussion

Who wants to be a millionaire? Do you think you can become a millionaire on your military paycheck? Why or why not? The bad news is that money doesn't grow on trees. The good news is that it can grow like a weed if you plant it in the right places—check this out: This graphic shows how your money can grow. If you were to start putting away just $50.00 at the beginning of each month in a bank account that earns 3% each year in interest, after one year you would have a total of $609.00. How much would you have after 10 years? $7,004. 30 years? $29,209. How about 40 years? $46,418. You would have put away a total of $24,000, but would end up with $46,418—almost double. Why is that? Because you left the money alone to grow, including any interest your money earned. That's called the power of compound interest and time.

It didn't add up to a million, though, did it? Let's see what would happen if we raised the interest rate to 10%—after one year you would have a total of $633. After ten years you'll have $10,327. After thirty years you will have $113,966—a lot more than the $29,209 at 3%. And after forty years of saving $50.00 per month at 10% per year, you still would have put away a total of $24,000, but your money would have grown to $318,839. Who would like to see their money grow like that? Still not a million—what would that take? More time? More interest? More money each month? All three? We'll revisit this before the end of this session, and see what it would take.

NOTE:
Ask participants questions to get them motivated and involved.

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Is saving and investing a mystery? If it feels like it is, today is your lucky day—we are going to demystify it so that everyone in this room can do it and do it well. Keep it simple and organized, and you will find yourself well within reach of your financial goals. Let's start there—exploring a simple and organized approach to saving and investing by using the Financial Planning Pyramid.

Handout:
Financial Planning Pyramid

The Financial Planning Pyramid

Introduction

The simple pyramid structure shows you the steps you need to take on your journey towards achieving your financial goals. There are three levels. We will talk a little about the management level, but most of this level is covered in other courses. We will talk a lot about the savings level, and we will touch on the investment level just enough to get you started today. When you are ready to explore investing more thoroughly, attend the full Saving and Investing course.

The Management Level

As you can see from the diagram, there are three components at this level—on the left is "Adequate Income". This means that in order for you to develop a successful saving and investing plan you need to have enough money to cover your basic needs, which includes savings. Since you are all gainfully employed, we will assume you have 'adequate income.'

In the middle you will note it says "controlled spending." What does this refer to? This means that you have some method of keeping track of the money that comes in and the money that goes out. In other words, you have some type of a working budget. If you don't, what a great time to start one, as you begin your financial plan. Your Command Financial Specialist is specially trained to help you in this area. Also, there are many courses offered on budgeting that you are welcome to attend. Under 'controlled spending' we also include making wise consumer purchases (like not overpaying on your car), and controlling the amount of debt that you take on. Again, if you need help with these things, see your CFS.

Finally, on the right you will see 'adequate insurance' insurance. Since most of you are covered by SGLI, you should have enough life insurance. But don't ignore the other insurance coverages that you may need—auto insurance, renters insurance, and perhaps disability insurance for a spouse. If you are not sure if you have adequate insurance protection, talk with your CFS, NFSC Financial Educator, or an insurance professional. It is very important—critical—that you take care of all the things at the Management Level, as they form the foundation that you will build your strong financial house on.

The Savings Level

Once you have satisfied the Management Level you are ready to move on to the savings level. Actually, most people, if they have done a good job on their monthly budget, are saving regularly, so in a way the Savings Level gets worked on at the same time as the Management Level. However, what most people don't do is organize their savings in a way that leads naturally to investing while at the same time covering periodic expenses and emergency needs. The three categories of savings you see on the Financial Planning Pyramid are:

- **Emergency Savings Fund**: A lump sum amount that you determine is sufficient to have in an account, available for emergencies that may arise.

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- **<u>Reserve Fund</u>**: A lump sum amount that you determine is sufficient to cover occasional (non-monthly) expenses, such as car insurance (if not paid monthly), birthdays, anniversaries, holidays, etc.

- **<u>Goal-Getter Fund</u>**: Money that is needed to fund short-term financial goals, where the money will be spent some time in the next five years. If the money is not needed in the next five years it is better 'invested' in the market. We will describe these funds in more detail in a few minutes.

The Investment Levels

__NOTE:__

Now would be an appropriate time to survey the class on who is currently investing and what they are investing in.

Compliment participants and encourage them to share their investment experiences toward the end of the class.

Once you have satisfied the first two levels, you are ready to move into the investment arena, and put some of your money into investments vehicles appropriate for your age, goals and risk-tolerance. There are many different tools you can use, the most popular ones are listed here. We will talk about two investments that are easy to use and appropriate for a new investor, mutual funds and U.S. Savings Bonds, in the next part of this course. **Ask for any questions on the Financial Planning Pyramid. Ensure participants understand it before moving on to the next section.**

The Financial Planning Pyramid shows you the big picture of financial planning. Many people understand this but do nothing about it—and the cost of procrastination is high. In fact, the savings rate in America is extremely low. It is recommended that you allot a minimum 10% of your net income to saving and investing. Do you know what the average saving rate in America is? Less than 5%! The next step to move you in the direction of financial success is to take this information and make it personal.

Money Flow Worksheet

Handout: *Money Flow Worksheet*

Introduction

To help you develop and personalize your saving and investing plan, you have been provided with a worksheet entitled, "How Your Money Flows." When we are done filling this worksheet in you will clearly see the steps you need to take to start saving and investing. You will also have a better understanding of which saving and investing vehicles or tools are right for you. As you can see, the How Your Money Flows worksheet uses a series of buckets. Let's talk about what each bucket should be filled with.

Monthly Cash Flow Bucket

As the Financial Planning Pyramid pointed out, you need to have adequate income. The first bucket is a summary of your monthly cash flow—information that you can get right out of your budget. A typical budget will have 70% of net income going to pay for living expenses—food, clothing, entertainment, vehicle costs (not including note payment), rent, utilities, etc. 20% or less of the net income in a typical budget goes to pay monthly debt payments—car payment, credit cards, and other indebtedness you may have. 10% or more of the money in a budget goes to savings. Fill in the amounts you spend in these categories.

Allow participants a few minutes to fill in the monthly income amount, and the amounts allocated to monthly savings, debt payments and living expenses. If participants don't know the amounts, they can estimate for now. Explain that they need to construct a monthly budget to get realistic figures. Invite to a budgeting class or refer to CFS for help. You may want to hand out calculators, if available. How does your cash allocation compare to the recommended amounts?

Savings Bucket

Now that you've got your cash flow bucket filled in, it is designed to overflow by the amount you will be saving each month. That overflow (hopefully 10% or more of your net income) flows into the savings bucket. Remember the savings categories from the Financial Planning Pyramid? You should see them listed on the Savings Bucket. There are no rules here on how much you should have in each of these categories, it is a very individual decision.

- **Emergency Fund:** As a guideline you can use three months of base pay for an emergency fund. Better yet, take some time to think about what a 'typical' emergency would cost you—what kind of shape is your car in? If it was to break down, how much would you need to fix it? What if you had to go on emergency travel? How much would that cost? Remember, this money money will sit in a savings account and wait for an emergency to happen, so that you will have the money to use if you need it, and won't have to rely on borrowing (which gets expensive—money costs money!)

- **Reserve Fund:** Your reserve category is a little easier to figure out. Add up what you spend on periodic expenses during the year. Remember, these are expenses that are not reflected in your monthly budget. Once you have the figure, you can divide it by twelve to calculate how much money you need to put into this fund on a monthly basis, to make planning easier.

- **Goal-Getter Fund:** Finally, the 'goal-getter' category must be completed. Now you are getting very close to the investment arena. Again, this money is for short-term financial goals that you have—money you will be spending in the next five years or less. We talked earlier about some of your goals, now take a few minutes to fill in a few short-term goals, and most importantly, the amount that you will need to achieve these goals. Allow participants four to six minutes to fill in the blanks in their savings bucket. Check for understanding.

Where does the money go?

Where do you think you will actually put the money that is in this bucket? Since it is the 'savings' bucket, you are pretty safe in saying the money goes in 'savings'—in other words, your bank or credit union. There are several different options at these institutions:

- Savings/share savings accounts
- Certificates of Deposit
- Money Market Accounts

NOTE:
Ask class if they know how these work, if not explain the basics.

What do these have in common? **The interest they pay is relatively low**—as little as 1.5 to 3% on your savings accounts, between 3% and 6% on your certificates of deposit (depending on how long you leave your money in the CD), and perhaps 3 to 4.5% on a money market account. **The money will be insured up to $100,000**, because banks and credit unions carry insurance to protect you if the institution goes out of business. **You can get at your money fairly easily and quickly**. All of these factors combine to give you three things: a lot of safety for your funds due to the insurance; a high degree of liquidity—meaning you can get you money very quickly; and a relatively low rate of return (the money that your money makes—also known as interest and dividends.) But have no fear, you aren't looking for a high rate of return on your 'savings'—safety is more important because this is money you could need at any time (emergency), or that you don't want to expose to the other risks of the 'market' (reserve and goal-getter funds).

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Investment Bucket

Now that you have filled in your monthly cash flow bucket and your savings bucket, and your savings funds/categories are fully funded, it is time to take your available cash and put it into investments. Why? Because this is where you are going to get the growth we talked about at the beginning of the session. Let's look at another example of compound interest and time. This graphic shows what $1,000 will grow to over forty years at 2.5% (to $1,685, which is exemplary of a savings account rate of return) and at 10% (to $45,259, which is exemplary of an investment [stock] return.) This is just one dollar—the more dollars you put away, the more you will have in the long run. Clearly this makes an argument for investing.

You may wonder, however, that if the growth can be this good, if investments have the potential to return so much more, why not just put all your money into investment vehicles from the start? The reason is because when you get into investments you give up some of the good features you get with savings, in order to get the good features that come with investments. You don't get something for nothing, do you? There are trade-offs.

NOTE:
Allow participants four to six minutes to fill in their long-term financial goals.

Your Long-Term Goals

Let's first talk about some of your long-term goals—goals that you would like to have the money for in five years or more. Write them down in the third bucket, and try to put a dollar figure on them. Now you will see, in very clear terms, how much money you need to save—is it more than you're saving right now? If it seems like you'll never reach your goal, remember, you've got compound interest and time, especially **time**, on your side.

Where should you put the money?

Referring back to the Financial Planning Pyramid, you can see there are many different investment tools you can use. We will talk about only two of them today. For a more in-depth discussion you'll want to attend the full Saving and Investing seminar. But let's focus here on U.S Savings Bonds and Mutual Funds—two of the easiest investments you can make.

Savings Bonds: Savings Bonds are a great way to start your investing. What they lack in returns they make up in simplicity and safety, and can be the foundation of a disciplined method of investing. Features of Series EE U.S. Savings Bonds include:

- Purchased at half of their face value, meaning that if you buy a $50.00 bond it will only cost you $25.00.
- Minimum investment is $25.00, which is one of the smallest minimum investments you will find.
- Risk is lower than most investments because the principal (amount you invested) and interest (amount your money earned) are backed by the full faith and credit of the United States Government.
- They are convenient to purchased—you can start an allotment right out of your military paycheck to purchase them, and DFAS will hold them in their safekeeping office.
- There are no commissions or fees, which make them one of THE most inexpensive investments you can purchase.

- Interest earned on savings bonds is exempt from state and local taxes, and federal taxes are postponed until you cash them in.
- Interest earned on bonds purchased by a person aged 24 or older and used to pay certain qualified education expenses may be excluded from gross income. In other words, these can be an important element of an education savings plan for a child. (Bond must be issued in the parent's name, not the child's, to get this tax benefit.)
- Savings Bonds earn interest for 30 years. They can be cashed in as early as 6 months after purchase, but if you cash them in within five years of purchase there is a 3-month interest penalty. Rates of interest change every six months. Current rates are in the the 4 to 5% range.
- If the bond hasn't reached face value within 17 years the government will automatically make an adjustment to put it up to face value.

In a nutshell, Series EE Savings Bonds are an easy, convenient and disciplined way to begin your investing. You can start today. The trade off is that the interest rate is relatively low. If you are going to invest in these bonds, make it a PART of your investment plan, but not ALL of it. You will still want to look for more growth opportunities, and for that you will need to look at the stock market.

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Mutual Funds: Mutual Funds are a simple, efficient way to invest in the stock market. A mutual fund is a pool of investors money that is invested by a professional money manager in a variety of stocks (and/or bonds and cash) to achieve a specific objective. If you just want your money to grow, you would purchase shares in a 'growth' mutual fund. Investing in a stock mutual fund offers several advantages to the small (beginning) investor:

- May have a small minimum initial investment ($200 to $2000).
- Allows the small investor to take advantage of the expertise of professional money managers.
- Allows the small investor to hold a wide variety of companies without spending a lot on fees and commissions. Buying stocks of each company separately would be expensive.
- Allows the small investor to diversify, that is, hold a variety of companies. If you only invest in one company and the company does poorly, your whole investment does poorly. But if you invest in a mutual fund, which holds many, many companies, one can do poorly without the whole investment losing value.
- You can easily purchase a mutual fund. Often all it takes is a call to a 'fund family's' 1-800 number. They will send you an application, and you fill it out and return it with your check. You are now investing.

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- You can usually set up an allotment to purchase your mutual fund shares automatically each month.

- Of course, you can invest in individual stocks if you like, but it takes time and knowledge to adequately research individual companies. Mutual funds make it simple, and you can benefit from the same returns that stocks get. Did you know that the average return for stocks over the past seventy years has been between 10 and 12%? Bear in mind, however, that when it comes to investing there are no guarantees. Your money is not insured, and you could lose some or all of your investment. Having said that, however, investing in stocks over the long run has historically provided the most opportunities for growth for investors.

Now that you know where to look for some good growth, let's revisit the idea of compound interest and time, and our quest for a million dollars. If you were to invest $2,000 each year at a rate of $166.66 at the beginning of each month, and the money earned 10% each year, and it grew tax-deferred, like it would in an IRA or other tax-deferred pension plan, how much money would be in the account after one year? $2,112. After 10 years? $34,424. After 30 years? 379, 872. Do you think it will reach the million dollar mark by 40 years? YES, after forty years you will have $1,062,754. So merely by increasing the amount you commit to your savings a little bit now, and by putting your long-term money in an investment earning a higher return than what you might get at the bank or credit union, you can achieve some impressive returns in the long run, which means your financial goals can become reality. (By the way, if you decide to wait ten years to start this investment, for whatever reason, it will cost you $682,882 in lost growth. Procrastination can be expensive!)

Action Strategy

There's a popular ad on television that asks, "Where do you want to go today?" When it comes to your money, you should have a pretty good idea which direction you need to move in. So now that you've heard about how the money your money makes can make more money, and that by investing a little today you can achieve some pretty big financial goals later on, and STILL have fun this weekend, what's a good action strategy? Try to think of pursuing your financial goals like taking a journey—you have some questions to answer first, to plan the trip:

- What is your destination? Write down your goals and put a dollar amount on them.
- How long will the trip take? Determine the date you want to have the money.
- Do you have the map? Prepare your personal budget/spending plan.
- Do you have enough fuel? Figure out how much cash you can commit each month. Can you increase your savings each time you get a raise?
- Do you have safety supplies in the car? Fully fund your emergency savings category.
- When will you get there? Determine the right saving or investment 'vehicle'.

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- When will you leave? The earlier the better. Today is a lot earlier than tomorrow.

- Will you stop and ask for directions if lost? Seek professional help if needed.
    - Command Financial Specialist
    - NFSC Financial Educator
    - Financial advisor
    - Books, Magazines, TV, Internet

Conclusion

Who is ready to take this journey? Refer back to participants who earlier indicated they are currently saving and investing. Ask them to offer their best advice to the class. Ask if they would be willing to talk one-on-one with some of their interested co-workers regarding their saving and investing experiences. Ask them to share how and where they learn more about saving and investing.

Saving and investing is no mystery, and can be as simple and convenient as savings accounts, savings bonds and mutual funds. Get started today by completing the "How Your Money Flows" worksheet. Start an allotment today! Take advantage of the time you have on your side—a little saved today compounds to provide you financial freedom tomorrow.